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SUBJECT: FICO AND HIS COALITION PARTNERS: THE SHARK AND THE
SEALS

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"To a shark, just about the funniest thing is a wounded seal
trying to swim its way to shore, because, where does he think
he's going?" -- Deep Thoughts by Jack Handey

¶1. (SBU) Summary. Prime Minister Robert Fico (Smer) and
junior coalition partner HZDS continue to argue publicly over
nearly every issue in parliament, including the recently
passed health insurance, social insurance/pension, and mining
reform laws. HZDS threatened to vote with the opposition on
each issue but Fico reasserted control at the last minute,
reportedly threatening both HZDS and SNS with expulsion from
the coalition if they did not vote for his proposal to
eliminate the right of health care insurers to make a profit.
HZDS capitulated and likely will have to do so on future
issues of genuine importance to Fico, since the party faces
dubious prospects for survival outside the coalition. Fico's
high-stakes victory on health insurance has provoked concern
that the Prime Minister will commit himself to passing a
series of health policy initiatives that many believe would
reduce individual liberties and damage the business
environment. End Summary.

The Shark and the Seals

¶2. (SBU) On October 26, parliament voted along straight
coalition lines to pass Smer-proposed legislation that would
eliminate the right of health insurance providers to make
profits for their owners/shareholders. In the week
preceding the vote, prospects for the legislation's passage
looked dim, since leading voices on health care legislation
for HZDS (Milan Urbani) and SNS (Stefan Zelnik) were working
actively with the opposition to craft a business-oriented
counter-proposal. Urbani's amendment had been scheduled for
an October 26 vote. In the early afternoon that day Zelnik
called Poloff to assure that HZDS and SNS would vote for
Urbani's proposal, not Fico's. To restore order, Fico called
an extended late afternoon coalition leadership meeting to
twist arms, telling SNS leader Jan Slota and HZDS leader
Vladimir Meciar that this was a make-or-break vote if they
wanted to remain as coalition partners. Slota caved
immediately, Zelnik noted wearily in a follow-up conversation
with Pol FSN. HZDS attempted to negotiate with Fico for
about an hour, but only secured minor commitments on other
issues. An hour after the meeting ended, the entire
coalition voted for Fico's proposal. (Note: Michal Meciar,
Vladimir's son and also a HZDS leader, acknowledged to DCM
that power politics always triumphs in such situations.)

And on other legislation...

13. (SBU) HZDS was more successful in its efforts to curtail Smer's mining law reform -- but only because Fico appears to have limited interest in the issue. On October 29, parliament passed legislation along party lines that would limit the options of municipalities to oppose mining, leading the way for Canada's Tournigan Gold Corporation to begin strip mining gold in Kremnica and uranium near Kosice. HZDS MP Zdenka Kramplova strenuously opposed Smer's original proposal, and offered a counter-amendment to preserve the right of refusal for individual land owners. After a week of debate, Kramplova's amendment was passed on October 29, with all but six Smer MPs voting in favor, shortly before the final legislation was passed. The night after the vote, Poloff met (by chance, at a NGO event) a lobbyist for Tournigan, who said that the final legislation still helped his client, though operations in Kremnica will be complicated and contentious. The lobbyist (Peter Gazik/Candole Partners) added that he had worked directly on the legislation with high-level Smer appointees at the Ministry of Economy and with Smer MP Maros Kondrot, Chairman of the Economic Committee. He conceded that these contacts had little direct influence on Fico, which was probably why the Prime Minister let HZDS pass its amendment -- almost certainly as a concession made before the health insurance vote -- even though Kramplova trashed Smer on the floor of parliament the previous day. Fico seldom takes direct, personalized interest in legislation proposed by Smer's business wing.

14. (SBU) In its last act before recess, parliament voted October 30 by coalition lines to pass social insurance (social security/pension) reform, which will raise taxable income for social insurance from three times to four times the median wage, among other effects. The issue featured prominently in the national conversation for months, especially in late September when Fico and Vladimir Meciar sparred publicly before coming to agreement on a compromise proposal to submit to parliament (see reftel). Despite the agreement, HZDS MPs such as Urbani and Tomas Halecky

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continued last week to publicly discuss possible amendments in alliance with the opposition. After the October 26 meeting with Fico, however, HZDS ceased all such talk, and declined to make any statements on the floor of parliament before the final vote. A few days before Fico's coalition meeting, Smer MP Miroslav Ciz told Poloff that HZDS "needs to be happy to be where it is before the party disappears." For the moment at least, HZDS seems to be internalizing the message.

Analysis of Effects

15. (SBU) Among the legislative initiatives passed in the last week, only the new social insurance law imposes significant costs on business. US Steel, by far the largest U.S. employer in Slovakia, estimates that the new social insurance proposal will cost them 1.6 million dollars per year due to increased taxation on its upper income employees. Opponents of the legislation nevertheless express a certain degree of satisfaction with the final result, since the bill passed by parliament represents a small fraction of what the Prime Minister originally wanted, and Fico sunk to the level of threatening journalists with legal action and involved himself in several ugly public arguments in order to protect a reduced initiative that was never broadly popular in the first place. The opposition feels that they defended the core program, gained politically, and believe that no more serious forays against the social insurance law will be politically feasible in the near future.

16. (SBU) The new law that bans profit for health insurers is far more worrisome for business because of its overtly

socialist overtones. Fico's bill imposes no discernible costs for business in general -- though it is a huge blow for Czech- and Slovak-based Penta Investment Group, which dominates the private health insurance market in Slovakia. (Private insurers are now preparing to sue the Government of Slovakia.) Looking forward to 2008, the business community and opposition politicians believe that Fico's success on health insurance reform will encourage him to push through a series of poorly conceived, vaguely socialist health policy proposals that will be difficult to stop since health care providers are so widely unpopular in Slovakia. Furthermore, health care reform was a major and successful campaign issue for Fico when he ran for Prime Minister, so it is likely that he will feel personally invested in the outcome. While no general health care initiatives have yet been proposed, Smer has already introduced a series of specific legislative proposals regulating the pharmaceutical industry. These proposals, which deal with price controls, reimbursement for patent holders, and anti-competition rules, all may place international (and U.S.) pharmaceutical companies at a serious competitive disadvantage. Slovak pharmaceutical companies, including generic drug manufacturers, are considered core Smer supporters.

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